

Message Text

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PAGE 01 OTTAWA 01911 140011Z
ACTION EUR-12

INFO OCT-01 ISO-00 AGRE-00 AID-05 CIAE-00 COME-00
EB-08 FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 PA-01 /064 W
-----001307 140017Z /65

P 140003Z APR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 7040
INFO AMCONSUL MONTREAL
ALL OTHER CONGENS IN CANADA (POUCH)

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E.O. 11652: N/A
TAGS: ECON, CA
SUBJECT: GOC PARTLY REJECTS PQ SALES TAX PROPOSAL

REFS: A. OTTAWA 1814, B. MONTREAL 696

1. FINANCE MINISTER CHRETIEN ANNOUNCED GOC REJECTION OF QUEBEC PREMIER LEVESQUE'S REQUEST THAT GOC PARTIALLY FUND ELIMINATION FOR ONE YEAR OF 8 PERCENT QUEBEC PROVINCIAL SALES TAX ON CLOTHING, TEXTILES, SHOES AND FURNITURE. INSTEAD, IT HAS OFFERED TO FUND TWO PERCENTAGE POINT REDUCTION FOR SIX MONTHS ON WHATEVER ITEMS PROVINCIAL SALES TAX IS REDUCED. EFFECTIVELY, IF QUEBEC REDUCES SALES TAX ON ONLY FOUR ITEMS (AS IT HAS), OTTAWA WILL COMPENSATE QUEBEC ONLY FOR THOSE FOUR ITEMS, NOT THE APPROXIMATELY CDOLS 226 MILLION COMPENSATION IF TAX WAS REDUCED ON ALL ITEMS.

2. CHRETIEN URGED QUEBEC TO RECONSIDER ITS REJECTION OF INITIAL GOC OFFER, PROPOSED IN APRIL 10 BUDGET (REF A) TO FUND TWO-THIRDS OF COST OF TEMPORARY ACROSS THE BOARD CUT IN PROVINCIAL SALES TAX.

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3. COMMENT. LEVESQUE'S REJECTION AND COUNTER PROPOSAL TO GOC'S INITIAL OFFER PUT BALL BACK IN OTTAWA'S COURT, AND LEFT GOC IN DELICATE POSITION. FLAT REFUSAL WOULD HAVE PERMITTED LEVESQUE TO CITE THAT AS ANOTHER EXAMPLE INSENSITIVITY TO SPECIAL NEEDS OF QUEBEC AND AS FAILURE OF FEDERALISM. ACCEPTANCE BY OTTAWA

WOULD HAVE INCREASED RESENTMENT BY OTHER PROVINCES
OF FURTHER SPECIAL TREATMENT FOR QUEBEC. CHRETIEN'S
OFFER IS ATTEMPT TO FIND MIDDLE GROUND AND STRIKE
POSE OF TREATING QUEBEC "LIKE EVERYBODY ELSE" AND GIVES AN
INDUCEMENT (BY OFFERING TO FUND EXPANDED PRODUCT
COVERAGE OF 2 PERCENTAGE POINT TAX CUT) FOR QUEBEC TO
MOVE IN DIRECTION INITIALLY DESIRED BY GOC I.E. ACROSS
THE BOARD TAX CUTS. IT MAY, HOWEVER, FURTHER ENRAGE
LEVESQUE AND THROW INTO CHAOS QUEBEC'S OWN BUDGET, WHICH
NOW SCHEDULED FOR PRESENTATION NEXT TUESDAY, APRIL 18.
BALL IS NOW BACK IN LEVESQUE'S COURT. ENDERS

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